

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAM-01 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 H-01

CIAE-00 COME-00 EA-06 FRB-03 INR-07 IO-10 NEA-09

NSAE-00 OPIC-03 LAB-04 SIL-01 AGR-05 PA-01 PRS-01

USIA-06 PM-03 DODE-00 /114 W  
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R 251641Z FEB 75

FM USMISSION OECD PARIS  
TO SECSTATE WASH DC 5588  
INFO AMEMBASSY LISBON

C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 04855

E.O. 11652: ADS, DECLAS 2-20-76

TAGS: EAID, PO, PFOR

SUBJECT: OECD/TECO-SPONSORED ADVISORY MISSION TO  
PORTUGAL - INFORMAL DEBRIEF//G BY TEAMLEADER FEBRUARY 19.

1. SUMMARY: TEAMLEADER PROF. RICHARD ECKHAUS, ACCOMPANIED BY TECO CHIEF ORMOND, DEBRIEFED AMBASSADOR TURNER AND SENIOR MISSION STAFF ON RECENTLY COMPLETED OECD-SPONSORED CONSULTANCY TO PORTUGAL TO ADVISE PORTUGUESE AUTHORITIES ON CURRENT PROBLEMS OF ECONOMY. END SUMMARY.

2. ECKHAUS EXPRESSED SATISFACTION WITH PORTUGUESE COOPERATION AND INTEREST IN TEAM. AMONG OTHERS, ECKHAUS TALKED WITH MINISTERS FOR FINANCE, ECONOMY, SOCIAL WELFARE, AND PUBLIC WORKS. FORTHCOMING REPORT ON FINDINGS AND RECOMMENDATIONS WILL COVER GENERAL ECONOMIC SITUATION, TAX AND MONETARY POLICIES, SOCIAL SECURITY, AND AFTER REVIEW BY PORTUGUESE AUTHORITIES, PORT DEVELOPMENT PROJECT AT SENIS, SOUTH OF LISBON.

3. AT MACRO-ECONOMIC LEVEL, ECKHAUS STATED THAT REPORT  
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WILL INDICATE THAT CURRENT ECONOMIC PROBLEMS MORE

RELATED TO WORLD-WIDE RECESSION THAN TO PORTUGAL'S CURRENT POLITICAL/ECONOMIC INSTABILITY. IN HIS VIEW, PORTUGAL FACES MILD RECESSION BUT THERE IS NO EVIDENCE OF LARGE INCREASE IN UNEMPLOYMENT AS THAT BEING ENCOUNTERED SOME PARTS WESTERN EUROPE AND U.S. IN 1974 (AND PROSPECTIVELY IN 1975) HE SEES LARGE CURRENT ACCOUNT (FOREIGN EXCHANGE) DEFICIT AS BEING CAUSED MAINLY BY HIGHER PRICES FOR IMPORTS (PARTICULARLY FOR FUEL) AS WELL AS FALLING OFF IN IMMIGRANT WORKERS' REMITTANCES AND IN DEMAND FOR PORTUGUESE EXPORT. DEFICIT SHOULD NOT CAUSE ALARM FOR LONGER-TERM ECONOMIC STABILITY SINCE IN HIS VIEW IT CAUSED BY TEMPORARY FACTORS WHICH WILL BE RECTIFIED WHEN THERE IS GENERAL UP-TURN IN WORLD ECONOMIC SITUATION (E.G., IN 1976). ECKHAUS ACKNOWLEDGED INFLATION HAS BEEN EXASPERATED BY LARGE INCREASES IN WAGES IN MARCH 1974 AND SUBSTANTIAL FOOD SUBSIDIES IN EFFORT TO INITIATE SOCIAL EQUITY PROGRAMS. HOWEVER, HE VIEWS PROBLEM AS NOT BEING DUE TO LAX MONETARY POLICY (SEE PARA 4 BELOW), AND BEING LARGELY CURABLE BY DIRECTING GOVERNMENT EXPENDITURE MORE INTO INVESTMENT AND PRODUCTIVE ACTIVITIES. PORTUGAL COULD USE HELP IN DEVELOPING SUCH PUBLIC-FINANCED PROGRAMS WHICH WOULD BRING MEDIUM- TO LONGER-TERM BENEFITS TO THE ECONOMY.

4. THUS, ECKHAUS INDICATED HIS MISSION DOES NOT SUPPORT THE KIND OF TRADITIONAL MONETARY AND FISCAL RESTRAINT POLICY FOR PORTUGAL WHICH HE REPORTS IS BEING ADVOCATED BY THE IMF. HE ARGUED THAT IMF OPERATING ON BASIS OF WRONG DATA. ECKHAUS STATED THAT RECENT IMF MISSION FOUND MONETARY GROWTH IN PORTUGAL HAS BEEN EXCESSIVE, BUT HIS TEAM CONCLUDED IMF CALCULATIONS WERE IN ERROR. ROBERT SOLOW, IN COOPERATION WITH PORTUGUESE AUTHORITIES, UNABLE TO RECONSTRUCT IMF DATA AND, IN CONTRAST TO IMF, CALCULATED THAT MONEY SUPPLY HAS BEEN GROWING AT ONLY ABOUT

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C O N F I D E N T I A L SECTION 02 OF 02 OECD PARIS 04855

ONE-HALF OF INFLATION RATE.

5. TAX AND SOCIAL SECURITY: TEAM RECOMMENDS UNIFIED BUT SIMPLE TAX SYSTEM TO REPLACE OUTDATED, INEQUITABLE AND INEFFICIENT ONE. SOCIAL SECURITY SYSTEM MUST ALSO BE OVERHAULED AFTER THOROUGH STUDY OF EFFORTS OF HIGH RATES OF MIGRATION OF WORK FORCE AND FACTORS SUCH AS AGEING POPULATION.

6. SENIS PORT DEVELOPMENT: PORTUGUESE REQUESTED ECKHAUS NOT DISCUSS SENIS DEVELOPMENT PROGRAM OR ISSUE THIS SECTION OF REPORT UNTIL AFTER PORTUGUESE REVIEW DUE HIGHLY SENSITIVE NATURE OF PLANS FOR PORT AND INDUSTRIAL PARK DEVELOPMENT.

7. ECKHAUS CONSIDERED HIS MISSION SUCCESSFUL BUT FELT IT ONLY A BEGINNING WITH MUCH ANALYTICAL AND OPERATIONAL WORK YET TO BE DONE.

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8. IN ANSWER TO QUESTIONS FROM MISSION STAFF, ECKHAUS INDICATED THAT HIS PORTUGUESE CONTACTS AT HIGH LEVELS BELIEVED ELECTIONS WOULD TAKE PLACE IN APRIL. WHILE COMMUNISTS LIKELY TO TRY TO CAUSE ADDITIONAL SOCIAL UNREST AND VIOLENCE IN EFFORT TO POSTPONE ELECTION SHOWDOWN, HE DOUBTED THEY WILL BE SUCCESSFUL. IN HIS VIEW, ELECTIONS WILL SHOW NOT MORE THAN 15 PERCENT SUPPORT FOR RADICAL LEFTISTS. ECKHAUS OPTIMISTIC ON ABILITY OF MODERATE ELEMENTS IN GOVERNING MFA TO CONTROL MORE ORGANIZED BUT SMALL MINORITY OF RADICAL LEFT MEMBERS. HE BELIEVES THAT SYSTEM IS STILL EVOLVING AND STUMBLING

IN SEARCH OF NEW EQUILIBRIUM, BUT THAT MODERATE ELEMENTS  
ARE RAPIDLY LEARNING THE ART OF SUCCESSFUL POLITICS  
THROUGH TRIAL AND ERROR.  
TURNER

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